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To: Mr. Jean-Claude Aimé, Executive Secretary  
United Nations Compensation Commission

From: Egbert C. Kaltenbach, Deputy Director *E. Kaltenbach*  
and Officer-in-Charge  
Audit and Management Consulting Division, OIOS

Subject: Management Review of the United Nations Compensation Commission  
(AE97/278/2)

1. I am pleased to submit to you the report on the Management Review of the United Nations Commission, which was conducted from 9 June 1997 to 9 July 1997.
2. When commenting on the Management Review recommendations, please refer to the recommendation number concerned in order to facilitate monitoring of their implementation status. Please indicate a time schedule for the implementation of each accepted recommendation.
3. I would appreciate receiving your reply by 31 August 1997.

cc: Mr. J. Connor  
Mr. J. P Halbwachs  
Ms. C. Chavez



UNITED NATIONS  
AUDIT AND MANAGEMENT CONSULTING DIVISION  
OFFICE OF INTERNAL OVERSIGHT SERVICES

Assignment No. AE97/278/2

31 July 1997

Management Review of the  
United Nations Compensation Commission

Management Consulting Team:

Auditor/Consultant-in-Charge:  
Judith Robinson



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## MANAGEMENT REVIEW OF THE UNITED NATIONS COMPENSATION COMMISSION (AE97/278/2)

### Executive Summary

From 9 June to 9 July 1997, we conducted a management review of the operations of the United Nations Compensation Commission. The Commission has reached an important juncture in carrying out its mandate. By the end of September 1997, the Commission expects to complete the review, validation and valuation of over 2.4 million claims in the "A", "B", and "C" categories, employing technologically sophisticated mass claims processing methodologies. The more than 140,000 category "C" claims remaining to be validated are expected to be finalised by the end of 1998. This will leave approximately 16,000 claims in the "D", "E", and "F" categories with asserted values of some \$230 billion for processing - claims which do not lend themselves to the fast-track mass processing techniques.

Our review was designed to establish the appropriateness of the Commission's organizational structure and management processes as it prepares to respond to the challenges of meeting the requirements for the expeditious processing of the remaining claims.

We found that although there was general agreement on the need for different technical skills (in particular, accounting and loss adjusting) to facilitate the quantification of the losses asserted in the "D", "E", and "F" categories, their contribution to the claims review process was reflected inappropriately in the organizational structure. As a result, the Commission's strategy of extensive reliance on external consultants to provide these skills is seriously flawed; the Commission does not have the resources to effectively identify the need for consultants, and specify and review the work of these consultants. **Our recommendations include the establishment, within the Legal Services Division, of a Loss Quantification Unit, staffed with accountants and loss adjusters, and headed by a senior technician and administrator at the D-1 level. The recommendations also include the development of a revised strategy for procuring the services of external consultants and experts.**

We also found that despite the very recent reorganization resulting in more clearly defined roles for the two Deputy Executive Secretaries - Legal Services and Support Services - there is a significant imbalance in the impact that each position has on the Commission's operations. The Deputy Executive Secretary, Legal Services has a major role in co-ordinating the activities of the Legal Services and Loss Quantification Sections. On the other hand, with the Chiefs of Claims Payment and Compensation Fund Administration (who has a dotted line relationship to the Executive Secretary) and Information Systems Section at the P-5 level, **we are of the opinion that the position of Deputy Executive Secretary, Support Services, at the D-2 level, is redundant. We recommend a return to the pre-16 June 1997 organization structure in which the Chiefs, Claims Payment and Administrative Support Service (position to be reclassified to D-1), and Information Systems Section reported directly to the Executive Secretary.**





## I. INTRODUCTION

1. The United Nations Compensation Commission (the Commission) was established by Security Council resolution 687 (1991) to administer the Fund created to pay compensation for claims arising from "any direct loss, damage, including environmental damage and the depletion of natural resources, or injury to foreign Governments, nationals and corporations, as a result of Iraq's unlawful invasion and occupation of Kuwait". The Secretary General's Report to the Security Council pursuant to paragraph 19 of the above resolution, requires the Commission to "address a variety of complex administrative, financial, legal and policy issues, including the mechanism for determining the level of contribution to the Fund, the allocation of funds and payments of claims; the procedures for evaluating losses, listing claims and verifying their validity; and resolving disputed claims".

2. The Commission has reached an important juncture in carrying out its mandate (a summary of the Claims Processing Status in early June 1997 is attached in Annex I). Of the more than 2.6 million claims received, it has completed the review, validation and valuation of over 1.2 million claims in the "A", "B", and "C" categories, employing technologically sophisticated mass claims processing methodologies. Within the next three months, it is expected that the consolidated Egyptian Workers Category "C" Claim (1.24 million claims) will be approved by the Governing Council. The more than 140,000 category "C" claims remaining to be validated are expected to be finalised by the end of 1998. This will leave approximately 16,000 claims in the "D", "E", and "F" categories with asserted values of some \$230 billion to be processed by the secretariat - claims which do not lend themselves to the fast-track mass processing techniques applied in the earlier stages. The Kuwaiti Oil Company's Well Blow-Out Claim in Category "E" is a good example of the size and complexity of the remaining claims. That claim, with an asserted value of over \$900 million, has been validated and approved by the Governing Council in the amount of \$610 million. The losses were evaluated and quantified by a Panel of Commissioners which included an accountant; the special secretariat team supporting the Panel included a consultant accountant, and undertook a site visit to Kuwait to review additional documentation.

3. With respect to the administration of the Compensation Fund and the payment of claims, the Commission received contributions of \$82 million under the terms of Security Council resolution 778, and income of \$486 million from the oil-for-food sales authorised by the Security Council in resolution 986. The latter mechanism for making payments into the Fund will continue until sanctions are removed pursuant to paragraph 22 of resolution 687 (1991). The Commission therefore has never had the responsibility for ensuring that payments are made to the Fund, and has focused its attention on making payments in respect of amounts awarded by the Governing Council. In this regard, the Commission has paid out approximately \$157 million, as at 31 May 1997, to governments and international organizations in full and partial satisfaction of claim awards in categories "A", "B", and "C".

4. In February 1997, Mr. J.-C. Aimé, the newly-appointed Executive Secretary of the Commission, requested the Audit and Management Consulting Division (AMCD) of the Office of Internal Oversight Services (OIOS) to conduct a management review of the Commission. During the period March to May 1997, the Executive Secretary also engaged the services of several

consultants to advise on the following issues which appeared to be impeding the secretariat's ability to function effectively:

- (a) the efficient functioning of the Information Systems Section.
- (b) the definition of the functions and grades of staff at all levels; and
- (c) the distribution of duties and responsibilities among the staff of the secretariat.

5. We note that the consultants' recommendations have been accepted and are being implemented. The most fundamental of these recommendations concern the re-structuring of the organization, resulting in clearer definitions of the role and functions of the two Deputy Executive Secretaries - one with responsibility for the Legal Services Division, and the other responsible for the newly created "Support Services Division". The Support Services Division incorporates Claims Payment and Compensation Fund Administration, Information Systems Section, and an Executive Office responsible for the provision of administrative support to the secretariat. The Legal Services Division constitutes the main operational arm of the Commission. The Division's principal functions are the examination and validation of the claims, and the evaluation of the losses asserted by the claimants. For greater efficiency in processing the largely similar claims in the "E" and "F" categories, the consultants recommended that the staff in both claim units be organized into teams according to major sector and types of claims, and that the work of the two units be coordinated by a project manager. The consultants also proposed that certain posts be submitted to UNOG Personnel for re-classification approval. The current organization chart is shown in Annex II.

6. One consultant identified the need for a range of organizational development initiatives to address what was described as "a serious problem of communications within the UNCC secretariat". A team-building initiative to "enhance the way we communicate and share information and to ensure that we work together in a spirit of co-operation" was launched by the Executive Secretary in early May 1997. The first phase involved the senior management in a 360-degree feedback exercise; the second phase incorporated the participation of the lower levels of management in a team-building retreat facilitated by external consultants.

## **II. REVIEW OBJECTIVES**

7. In response to the request for a management review, AMCD first initiated an audit of the operations to determine and evaluate the efficiency and effectiveness of the operational systems employed in the validation and payment of claims, the use of external consultants and contractors, the management of the Compensation Fund, and the use of UNOG resources to provide administrative support services. That audit is in progress. As one of the set of assessments undertaken by external consultants to assure the Executive Secretary that the Commission is doing the right things and is organized to do them well, this second phase of the management review - the review of the organisational structure and management processes - has been informed by the

preliminary findings of the audit, and is designed to establish the appropriateness of the Commission's organizational structure and management processes as it prepares to respond to the challenges of its internal and external environments.

### III. REVIEW SCOPE

8. Through interviews with executive management and senior operating managers, and through document reviews, the review sought to:

- (a) identify the challenges facing the organization in the pursuit of its objectives;
- (b) establish the factors considered critical to meeting these challenges;
- (c) identify and evaluate the major operational processes to be introduced or streamlined to assure the successful attainment of the objectives; and
- (d) recommend the necessary structural and other organizational changes which arise from the consideration of (a), (b), and (c) above.

### IV. FINDINGS AND RECOMMENDATIONS

#### A. Organizational Challenges

9. There is general consensus that a key aspect in establishing strategic objectives for the Commission is the time horizon within which it is required to complete its mandate. That issue was put to the Governing Council, at its June 1997 meeting, in the first Report of the new Executive Secretary. The report estimated that the claims processing programme could be completed within fifteen to twenty years depending on the mix of in-house and external expertise employed in the verification process. We are advised that although the Governing Council did not commit to a specific time frame, it was generally conceded that the period should not extend to fifteen/twenty years.

10. Within the context of these broad time guidelines, the Commission's major challenges are perceived to be the expeditious valuation of the claims in categories "D", "E", and "F" and the implementation of accountability systems to ensure that the claimants receive the awards granted. The organizational restructuring, effective 16 June 1997, reflects these priorities by assigning the responsibility for the execution of plans to meet each challenge to the Deputy Executive Secretary, Legal Services and Support Services, respectively.

11. The remainder of the report examines and evaluates the appropriateness of the structures and processes designed to address these challenges in each division.

## B. The Legal Services Division

12. Although designated Legal Services, this division is really responsible for maintaining what the Secretary General's Report to the Security Council describes as "the procedures for evaluating losses, listing claims and verifying their validity; and resolving disputed claims". The functional units within the division are:

### Legal Services

- Registry
- Claims Units, and

Governing Council Secretariat (with a dotted line to the Executive Secretary).

13. The *primary* business processes of the division can be described as :

*Registration* - the functions performed by the Registry as specified in Articles 11, 12, and 13 of the *Provisional Rules for Claims Procedures* (the Rules), and by the Registry and Claims Units as prescribed in Articles 14 and 15 (receipt of claims and preliminary assessment);

*Legal verification of claims*; and

*Evaluation of the losses asserted.*

The latter two processes constitute the work of the Panels of Commissioners, and in this regard the Panels are supported by the Claims Units through the conduct of the reviews prescribed in Articles 16 (Reports and Views on Claims) and 17 (Categorization of Claims), the preparation of the Article 32 Report (Submission of Claims to Panels), and assistance under Articles 34 and 38.

14. The division's *secondary* business processes and the responsible organizational units are:

- Provision of technical support services to the Governing Council's formal and informal meetings (*Governing Council Secretariat*);
- Coordination of technical support services to the Panels of Commissioners (*Office of the Chief, Legal Services*); and
- Management of relations with claimant countries and organizations (*Governing Council Secretariat*).

### Divisional Challenges and Critical Success Factors

15. The division continues to be challenged by the need for the expeditious processing of claims within the constraints of the due process, established by the Governing Council, that is the determination of the compensability of each claim, and the application of the methodologies devised to validate the losses asserted by the claimants. As the focus in the operations shifts from processing claims in the "A", "B", and "C" categories to those in the more complex "D", "E", and "F" categories, there is a need for the formulation of legal precedents, as well as the development of appropriate methodologies (primarily accounting and loss adjusting techniques) to facilitate the review of the highly technical factual issues raised in the statements of claim. Organizing for the implementation of this transition is critical to the continued success of the division and the Commission.

16. Key to the successful management of this transition are:

- acquisition of the skills to evaluate losses claimed - at both Panel and Secretariat levels, and;
- application of information technology to a) support the access (often simultaneous) by several professionals to the extensive claims documentation of categories "D", "E", and "F" claims, and b) manage the documentation and track the processing of these claims.

17. In the succeeding paragraphs of this section, we examine the technical skill requirements for effectively evaluating losses in categories "D", "E", and "F", and the functional requirements for information technology.

### The Legal Verification and Loss Quantification Processes

18. The following analysis of the technical skill requirements for the review and evaluation of losses asserted in "D", "E", and "F" claims is based on the requirements of the Rules.

#### *Articles 14 and 15 Review (Preliminary Assessment)*

19. Focus Questions:

- Is the claim comprehensible? Does it meet the basic requirements for acceptance?
- Is the claim compensable based on the legal precedents? Does the claim raise new legal issues?
- Is the claim comprehensive? Can the losses asserted be evaluated based on the evidence submitted? What new factual issues are raised?

20. For the highly structured claims in categories "A", "B", and "C", this review was and is being carried out under the direction of lawyers in the Registry and in the respective Claims Units. Although "D" claims are structured similarly to "C" claims, their size necessarily increases the complexity of the supporting evidence, and the factual issues to be considered can be as technical as those raised in the "E" and "F" categories. Based on the review of the "D", "E", and "F" claims completed to date, it is very clear that **the preliminary assessment of legal and factual issues requires the professional expertise of accountants and loss adjusters to review the quality of the evidence submitted to support the losses asserted, and to comment on the deficiencies.**

#### *Article 16 Report*

21. The Article 16 Report is submitted to the Governing Council, the governments of Iraq and the claimant countries, and provides statistical data on those claims which have cleared the Article 14 Review. It is at this point that the new legal and factual issues identified in the Article 14 review are raised with a view to obtaining comment and views which could assist in informing the development of strategies and methodologies for verifying the claim and validating the losses. It is expected that after the establishment of legal precedents arising from the Panel reviews of the first installments in the "D", "E", and "F" categories, there will be a declining number of new legal issues emerging, and that the substantive issues reported under Article 16 will be largely factual. **The preparation of the report requires a collaborative effort of legal, accounting and other appropriate professional expertise.**

#### *Article 17 Categorization (Grouping)*

22. The Commission endeavours to group claims raising similar legal and factual issues to facilitate review by the Panels of Commissioners. With factual issues predominating in the evaluation of "D", "E", and "F" claims, **the grouping will be guided primarily by the findings of accountants and loss adjusters, and other non-legal professionals on the type and nature of the loss, and on the similarity and complexity of the accounting and valuation issues identified.**

#### *Article 32 Report*

23. The Article 32 Report is a comprehensive brief on the legal and factual issues which is prepared by the secretariat staff to facilitate and expedite the deliberations of the Panel of Commissioners. A review of the Article 32 Report prepared for the Panel considering the Kuwaiti Oil Company's Well Blowout Control (WBC) Claim confirms that the Legal Services Division has the necessary legal expertise to brief the Panel on legal issues; it is equally clear that there is no comparable in-house expertise to address, for example, the factual issues raised in the Accountant's Report which accompanied that Statement of Claim. Indeed, the WBC Article 32 Report suggested the retention of an external expert or the services of the accountant on the Panel to assist the Panel in determining the reasonableness of the costs incurred, the reliance to be placed on the Accountant's Report, and whether the costs claimed were actually incurred by the Claimant.

24. In view of the more than 16,000 claims to be processed in categories "D", "E", and "F", **there is a clear need for the Legal Services Division to acquire and retain internally the necessary expertise to review and brief the Panels on the complex factual issues which will be raised upon examination of these claims. The preparation of the Article 32 Report requires the services of staff to address both legal and factual issues with the same level of competence.**

#### *Article 34 Assistance*

25. The Legal Services Division provides the Article 34 requirement for technical and legal support to the Panels of Commissioners, including assistance in obtaining additional information. **The preparation of interrogatories and procedural orders, among other assistance, is a natural extension to the areas of work in which there is a need for the combined expertise of legal, accounting, loss adjusting and other professional staff.**

#### *Article 38 Report*

26. At the request of the Panels of Commissioners, the Legal Services Division assists in preparing the Report on their deliberations to the Governing Council. The Panels report on their determination of the admissibility, relevance, materiality, and weight of the claim based on documents and other evidence submitted, and on the reasons for their quantification of the losses sustained. **The importance of having the requisite internal expertise to support the Panels in reporting on the technical issues addressed in the quantification of the losses cannot be overemphasized.**

27. The requirement for the sustained input of non-legal professionals, in particular, accountants and loss adjusters, in the loss quantification process outlined above, is undeniable. We believe very strongly that core competency in these skills should be established within the secretariat, and that should the secretariat find it necessary to seek technical assistance from external consultants, the technical quality of the work must be reviewed by the secretariat, and submitted to the Commissioners as part of the secretariat's expert presentation under Article 32, and not as independent opinion. This should not be construed as an attempt to interfere with the Panels' right to seek their own expert, independent opinion, if and when they find it necessary.

28. The division has recognized the need for the non-legal professional services discussed above, and has pursued two concurrent strategies to fill the need - the recruitment of accountants and loss adjusters, and the procurement of the services of external consultants and experts.

#### *Recruitment of Accounting and Loss Adjusting Staff*

29. The advertisements for accountants and loss adjusters specify a requirement for P-3 level staff to provide support to the legal officers and to liaise with external consultants and experts retained to assist in the verification of claims. The intention here is clear; the internal accounting and loss adjusting staff will function at a semi-professional level, without the status and responsibility

to offer opinion that is independent of the legal officers. In our opinion the importance of these professional services in the review and quantification of the losses in categories "E" and "F" has not been adequately reflected in their proposed utilization, nor in their position within the organizational structure. We are of the view that lawyers do not have the technical skills to manage the processes which we have enumerated above as requiring the services of accountants and loss adjusters. The need for internal expertise, sufficiently independent and competent, to prepare and present submissions to the Panels commenting on the claimants' assertions is, in our opinion, so critical to the success of the Commission's claims processing activity that the division should be re-organized to give the contribution of the accountants and other non-legal professionals the status it deserves.

*Composition of Panels for "E" and "F" claims*

30. As a separate matter, we have considered the implications of the accounting, loss adjusting and other professional expertise required for processing the "E" and "F" claims on the composition of the Panels of Commissioners. The Secretary General's Report to the Security Council categorised the Commission as ".....not a court or an arbitral tribunal before which the parties appear; it is a political organ that performs an essentially fact-finding function ....." We are of the opinion that the credibility and independence of the fact-finding function would be enhanced if each Panel were so composed that it constituted a third set of expertise for evaluating the expert submissions of the claimants and the secretariat in these complex claims.

We recommend:

- (i) The redesignation of the Legal Services Division as the Claims Processing Division;
- (ii) The Claims Processing Division to include a Loss Quantification Unit staffed with professional loss evaluators (accountants and loss adjusters, mainly) reporting directly to the Deputy Executive Secretary (see Annex III for the recommended organization chart of the division, and Annex IV for the Unit's mandate); and
- (iii) Recruitment of a Unit Chief at the D-1 level (staffing level to be confirmed by a classification review; position profile in Annex V). (Rec. AE97/278/2/001)

Pending the appointment of the Chief, Loss Quantification Unit, we recommend the immediate appointment of a consultant on a short term assignment for a period of at least three months to complete the following preliminary tasks:

- (i) providing advice on the selection of staff for the accountant and loss adjuster positions recently advertised, and currently being reviewed by UNOG's Human Resources Management Service;
- (ii) reviewing the outputs of the consultants currently employed in the



preliminary assessment of the first installments of the "E" and "F" claims;

(iii) collaborating with Legal Services in preparing the submissions on alternative work plans to the Governing Council in September 1997;

(iv) advising on the recruitment of the Chief of the Loss Quantification Unit;

(v) preparing and initiating the execution of a plan of work for completing the preliminary review (loss quantification issues) of the E & F claims; and

(vi) identifying and estimating the need for consulting services to assist in verifying and quantifying the losses. (Rec. AE97/278/2/002)

We further recommend a review of the composition of the Panels for "D", "E", and "F" claims to include appropriate skills, such as accounting and loss adjusting, in reviewing and quantifying the losses asserted. (Rec. AE97/278/2/003).

#### Procurement of the Services of External Consultants

31. The procurement of accounting and loss adjusting consulting assistance is currently being pursued as a matter of great priority to facilitate the Panel reviews of the early installments of claims in categories "E" and "F". This was pursued informally in the review of the WBC claim when, as discussed above, the services of an accountant were hired. Since then there has been an attempt to procure these services in a more systematic, yet flexible, fashion utilizing a "systems contract" approach which would allow for the selection of more than one contractor, as and when needed. The approach has not been successfully implemented for reasons that will be discussed below.

32. The systems contract exercise was initiated in August 1996 when a draft Request for Proposal (RFP) for "systems contracts for the verification of "E" and "F" claims" was submitted by the Legal Services Division to UNCC's Senior Administrative and Financial Officer for transmittal to UNOG's Purchase and Transportation Section. When Legal Services drafted the RFP, it was known that there was a need for more than one type of professional expertise - accounting and loss adjusting - and more than one contractor of each type to complete the work within the time constraints imposed by the Rules for completing the review of each instalment. However, Legal Services was not in a position to properly specify the nature or the extent of the assistance required. The RFP requested information on capabilities to do the work, broadly specified, and schedules of the proposed mix of personnel to be assigned and the fee structures. The invited firms were also requested to declare any prior involvement with claimants and their claims, and with the work of UNCC, to await a determination by UNCC if the declared involvement constituted a conflict of interest. In effect therefore, although termed a Request for Proposal, the exercise was more in the nature of a pre-qualification.

33. The RFP was sent to a selection of what the Legal Services Division deemed to be firms with sufficient capability to meet the time demands, which was translated to mean the largest firms of the greatest professional renown - a relatively small field of prospective suppliers, which after examination of potential conflicts of interest, was reduced to little more than a handful.

34. The series of events that followed was frustrating for all the parties concerned, and resulted in the local Committee on Contracts approving "systems contracts" to four firms in March 1997. Instead of receiving the flexibility sought to hire approved consultants as and when needed, UNCC was requested by the Committee on Contracts to submit for the Committee's approval, on a case by case basis, the firm selected in response to a Request for Quotation (RFQ) for a specific assignment.

35. Based on our review of the procurement process at both the RFP and RFQ stages, and an evaluation of the work remaining, we note the following points to inform and improve the effectiveness of the procurement process:

(a) There is a need for external support from consultants offering services in accounting, loss adjusting, project management, and economic analysis, inter alia. A complete listing of non-legal professional services can be ascertained only after all files have been subject to a preliminary assessment (Articles 14 and 15 Review).

(b) The scope and scale of the work are likely to require more than one contractor of each type (that is very certain for the accounting and loss adjusting skills).

(c) The Articles 14 and 15 Review should be carried out, as far as possible, by internal experts and must be sufficiently detailed to produce a scope of work for the quantification of the losses claimed, together with broad estimates of time and effort for the conduct of that work. **The early Article 14 review of all the files is a prerequisite for the effective management and control of the processing of the "D", "E", and "F" claims.**

(d) The output from (c) above will inform the Article 17 Categorization, based on the application of common approaches, business types, claim sizes etc., and will be a joint undertaking of the Legal Services and the Loss Quantification Sections.

(e) Any strategy to facilitate the procurement of consulting services for loss quantification must address the constraints arising from potential conflicts of interest. To avoid wholesale disqualifications on this count, the list of eligible firms can be expanded by packaging most, if not all, assignments such that they can be managed by qualified medium-sized as well as large firms. This will assure greater competitiveness in the bidding process.

(f) Each package may require the services of more than one consultant - that determination should be made by the Deputy Executive Secretary on the recommendation of the Chief, Loss Quantification Section.

(g) The RFP should contain a case study of an anonymous, typical case to provide the consulting firms with a good understanding of the scope of work and to facilitate the inclusion of a section in the consultants' proposal addressing approach and methodologies.

(h) The bases on which the proposals will be evaluated must be conceptualized, weighted, and included in the RFP. A scheme for evaluation should include consideration of proposed approaches and methodologies, staff composition and suitability for the assignment, and fees.

(i) The preparation of the RFPs should be guided by similar exercises at Headquarters or other multi-lateral organizations to better assure the document's completeness.

We recommend the pre-qualification process as an essential first step in the procurement process to identify a roster of approved contractors. Through appropriate advertising, the process should be open to all firms meeting certain minimum requirements for size and capability. (Rec. AE97/278/2/004).

We further recommend that RFPs for consulting services be prepared for **packages** of claims based on their categorisation and their ability to be managed by medium-sized as well as large consulting firms. (Rec. AE97/278/2/005)

#### Information Technology Support

36. The division has identified extensive requirements for information technology to provide support for claims processing and document management, and has had the benefit of a feasibility study of an integrated claims and document managing system, conducted by external consultants. At the time of this review, the Commission was without the services of a Chief, Information Systems Section (ISS), and although included in the 1997 proposed budget, no decision had been taken on the implementation of the integrated system. In the meantime, resources are being employed in pursuing a series of stand-alone projects, for example, a database for tracking "E" and "F" claims on Lotus Notes, and an Oracle database to support the Article 15 Review for "D" claims.

37. We support the consultant's recommendation that the incoming Chief of ISS "initiate a plan for the design of durable solutions for D, E and F claims processing, to take account of corporate needs and database standards". We are especially concerned that the functional requirements be reviewed to include the input of the Loss Quantification Section.

#### C. The Support Services Division

38. This division is responsible for carrying out the directives of the Governing Council with respect to the administration of the Fund and the payment of claims, and to provide technical and administrative support services to all organizational units within the secretariat. The functional units supervised by the Deputy Executive Secretary are:

(a) Claims Payment and Compensation Fund Administration (with a dotted line to the Executive Secretary);

(b) Information Systems Section; and

(c) Executive Office

The Commission has recruited a Head of the Executive Office who is expected to report in August 1997; at the time of this review the recruitment process for the Chief, Information Systems Section was in the advanced stages.

39. The division's *primary* business processes are:

*Payment of Claims* - this activity will increase in scale as funds become available, and also in scope as the Commission seeks to make the recipient governments and other institutions accountable for payments made to them on claimants' behalf.

*Fund Administration* - this entails monitoring income, expenditure and investments of the Compensation Fund, and issuing investment guidelines and instructions to the UN Treasury.

40. The *secondary* business processes encompass the delivery of support services in the areas of information systems, finance, personnel management, procurement, general services, travel etc. to the organization, and make use, to a large extent of the support services provided by UNOG..

*Divisional Challenges and Critical Success Factors*

41. The major challenges confronting this division are twofold. The first is the execution of Stage 1 of the Claims Payment Management System (CPMS) for making payments to the large number of claimants for whom awards have been made, in a controlled manner with full transparency. When funds become available in August, the division expects to make payments of between \$500 -550 million covering about 220,000 claims in categories "A" and "C". The system has already been used in the disbursement of some \$157 million, without the benefit of implementation oversight by ISS ( for lack of ISS resources, the Claims Payment Section took the ISS-prepared system design and assumed responsibility for its construction and implementation). A review of the CPMS by ISS to ensure adherence to its standards in construction, implementation, testing etc. would produce the required level of comfort with respect to the system's capability and integrity.

42. The second challenge lies in the development and implementation of the second and third phases of the CPMS which address the follow-up actions based on reports from governments and international organizations on the distribution of payments, and subsequent refunds into the system where payments could not be made. Adequate support from ISS in Stages 2 and 3 is critical to ensure the timely implementation of the system.

43. Unlike the Legal Services Division which is focussed on one major task, that of processing claims through all stages, the Support Services Division, has disparate business functions, both line and staff, and represents a different type of management challenge. Although labelled secondary business processes, in that they do not directly represent the main business activities, it is important to note that support services cannot be effectively delivered without a complete understanding of the requirements of each organizational unit for those services. To add value to the processes of information systems support, recruitment, procurement etc., there is a need for support services managers to devote time and effort in understanding the business of the Commission and the changing demands of its external and internal environments.

44. As part of this understanding, we reiterate the need for the incoming Chief, ISS to initiate a plan for the development of durable solutions in the processing of "D", "E", and "F" claims which has been highlighted as an area of support that is critical to the success of the Legal Services Division. The assistance required in developing a strategy for the procurement of external consultants in the loss verification and quantification activity has also been identified as another critical area of support for the Legal Services Division.

45. The Support Services Division has responsibility for coordinating the preparation of the annual budget. We note that the Governing Council, up until now, has played a tangential role in the budgeting process - being advised after the Controller's Office has reviewed and approved the budget. This is so despite the requirement for the Council's Committee on Administrative Matters (CAM) "to review and provide guidance on major administrative and budgetary matters presented to it by the Executive Secretary". We were unable to find minutes of budget deliberations or of any other meeting of the CAM. The Division is challenged to devise and recommend to the Executive Secretary strategies to ensure the more effective functioning of the CAM, including its involvement in a budget process that recognizes the responsibility that the Governing Council has for policy making with respect to the administration of the Fund and the organisation of the work of the Commission.

#### Structural Anomalies

46. There is an obvious imbalance in the impact of the processes managed by the two Deputy Executive Secretaries. The primary processes managed by the Deputy Executive Secretary, Support Services Division are largely administrative, and become even more so when the developmental aspect of establishing the payment system is completed. Further, procurement, finance and personnel administration, among the secondary processes, are heavily supported by UNOG's Division of Administration. In the Legal Services Division, on the other hand, there is a continuing developmental role involved in the processing of the "D", "E", and "F" claims. Moreover, the Deputy Executive Secretary, Claims Processing Division will have a significant role in coordinating the activities of the Legal Services and Loss Quantification Sections to assure the attainment of the claims processing objectives.

47. The imbalance will lessen when sanctions are removed and the Governing Council assumes the responsibility for implementing the arrangements for ensuring payments into the Compensation Fund. In the meantime, the staffing of the Support Services Division includes a Deputy Executive Secretary at the D-2 level, two P-5 positions in the Chiefs of Claims Payment and Fund Administration, and Information Systems Section, and a P-4 Executive Officer. In our opinion, Claims Payment and Fund Administration, as a major function of the Commission, and the ISS, which has been shown to be a critical resource to Claims Processing and Claims Payments, should have direct reporting relationships with the Executive Secretary.

48. It has been suggested that the assumption by the Commission of more direct control of its recruitment and procurement functions would provide the position of Deputy Executive Secretary with greater responsibility, and better justify its organisational level. In our opinion, it would not be efficient for UNCC to assume functions that can be provided effectively by UNOG, nor would it be politically expedient for UNCC to manage these functions on its own, without oversight either by DAM at Headquarters or by UNOG, especially as the procurement of consultancy services is likely to generate in 1998 and subsequent years the largest single expenditure object in the budget, second only to salaries and common staff costs. The Commission as a highly sensitive political organization needs to guard its administrative credibility and integrity. We find it difficult to justify a requirement for a D-2 position in Support Services at the Deputy Executive Secretary level.

We recommend the reversal of the organization structure to the pre-16 June 1997 situation in which the Chiefs of Claims Payment and Administrative Support Service, and the Information Systems Section reported directly to the Executive Secretary. Under that arrangement, the newly created Executive Office becomes part of the responsibility of the Chief of Claims Payment and Administrative Support Service, which position should be re-classified at the D-1 level, as recommended by the consultant who performed the staffing and re-classification review. In consequence, the position of Deputy Executive Secretary, Support Services could be made redundant. (Rec. AE97/278/2/006)

We also recommend the approval of a position for a chartered/certified public accountant, as requested by the Chief, Claims Payment and Fund Administration, to be responsible for one-third of the governments receiving funds, and to act as focal point for the development of accounting standards and procedures for CPMS. (Rec. AE97/278/2/007)

We recommend that the Executive Secretary invite the Governing Council to assume responsibility for the approval of the budget as part of its policy making activities, and to re-activate its Committee on Administrative Matters to provide assistance in this regard. (Rec. AE97/278/2/008)

## V. ACKNOWLEDGEMENT

49. We wish to express our appreciation for the assistance and cooperation extended to the auditor/consultant by the senior management and staff of UNCC, by the staff of the Purchase and Transportation Section, UNOG, and by Mr. A. Duque, Consultant to UNCC.



Egbert C. Kaltenbach  
Officer-in-Charge and Deputy Director  
Audit and Management Consulting Division, OIOS

copy: UN Board of Auditors  
Planning and Compliance Officer, OIOS





# UNITED NATIONS COMPENSATION COMMISSION

## Annex I

### STATUS OF C, D, E & F CLAIMS PROCESSING AS AT 17 JUNE 1997

Claim Type	No. of Claims Received	No. of Claims Approved	Claims O/Standing	Work Status and Schedule	Processing Strategies
C Losses to individuals below \$100,000	1,240,000 (Egyptian Workers) 442,289	277,300	1,240,000  164,989	All for submission to Governing Council in September 1997.  6th instalment due end 1st Qtr. 1998 Final instalments for submission by end 1998	Remaining instalments not amenable to fast-track processing methods developed for earlier instalments.  Panel and secretariat creating new methods for processing the remaining loss types.
D Losses to individuals above \$100,000	10,783		10,783	5,019 non-Kuwaiti and 76 Kuwaiti claims registered. Registration of remaining claims to resume 1st Qtr. 1998 (excepting Kuwaiti claims for submission in 2nd. installment.  1st instalment of 62 claims for Governing Council's approval in December 1997.  2nd instalment scheduled for submission to Panel at end of 1997.  No schedule for the processing of remaining claims. Awaiting Article 15 Review.	2nd installment will need to establish new precedents and specific compensation criteria for personal injury, personal property, and bank accounts and securities.  A substantial number of claims are likely to fail to meet the formal requirements for Article 15 review. Secretariat expects to issue informal and formal notices to claimants to have the claim deficiencies remedied.

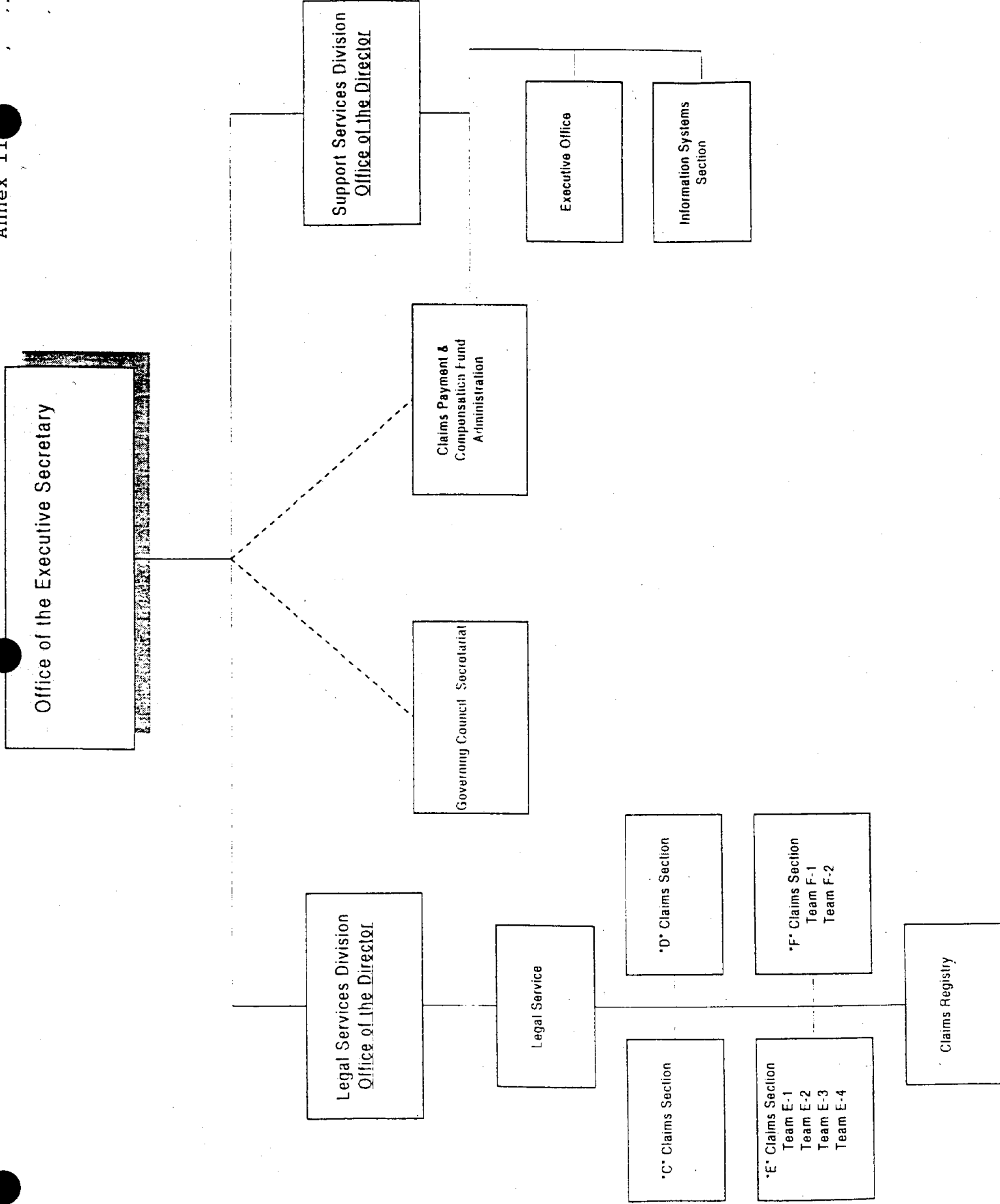


Claim Type	No. of Claims Received	No. of Claims Approved	Claims O/Standing	Work Status and Schedule	Processing Strategies								
E  Corporate Losses	5,943	1	5,942	<p>Registration of non-Kuwaiti claims to be completed by August 1997. Kuwaiti claim registration expected to be completed by February 1998.</p> <p>Of 743 non- Kuwaiti claims reviewed under Article 15, 541 have failed. Well Blow-Out claim approved by Governing Council in December 1996 (Panel 1).</p> <p>Panel 1 to receive a first instalment of asset and related loss claims in the oil sector before end 1997.</p> <p>Panel 2 currently reviewing 5 large or complex claims. Expected to resolve precedential issues relating to causation and pre-existing debts and obligations of Iraq by spring 1998.</p> <p>Panel 3, in July 1997, to begin review of claims filed by corporations in consortium involved in Behkme dam project.</p> <p>Panel 4 to begin to resolve the fairly homogeneous 2,754 Kuwaiti private sector claims by end 1997.</p>	<p>Category "E" Claims Section re-organised as follows:</p> <table><tr><td>E1 Oil Sector</td><td>50-60</td></tr><tr><td>E2 Non-Kuwaiti Private</td><td rowspan="3">}</td></tr><tr><td>E3 Constr./Engineering</td><td>3,165</td></tr><tr><td>E4 Kuwaiti Private</td><td>2,754</td></tr></table> <p>Expected that Article 15 Review of Kuwaiti claims will be carried out at the same time as the substantive review.</p> <p>Processing strategy proposed involves extensive use of external resources</p>	E1 Oil Sector	50-60	E2 Non-Kuwaiti Private	}	E3 Constr./Engineering	3,165	E4 Kuwaiti Private	2,754
E1 Oil Sector	50-60												
E2 Non-Kuwaiti Private	}												
E3 Constr./Engineering		3,165											
E4 Kuwaiti Private		2,754											



Claim Type	No. of Claims Received	No. of Claims Approved	Claims O/Standing	Work Status and Schedule	Processing Strategies
F  Losses by Governments and International Organizations	297		297	<p>Article 15 Review completed.</p> <p>Panel 1 to complete review of 1st instalment of 9 claims by October 1997.</p> <p>Panel 1 to receive 2nd instalment of 17 claims from 14 countries after October 1997.</p> <p>Panel 2 to begin work on large and complex claims early 1998.</p> <p>Panel 3 could begin reviewing environmental claims in the summer or early fall 1998.</p> <p>No schedule for the processing of remaining claims. Awaiting the experience gained from Panel 2's review.</p>	<p>Category "F" Claims Section reorganised as follows:</p> <p>F1 Small/Large incl. Export Guarantee 28 F2 Large 160-170 F3 Environment 45-50</p> <p>Secretariat has issued 89 notifications re claims with deficiencies to be remedied.</p>





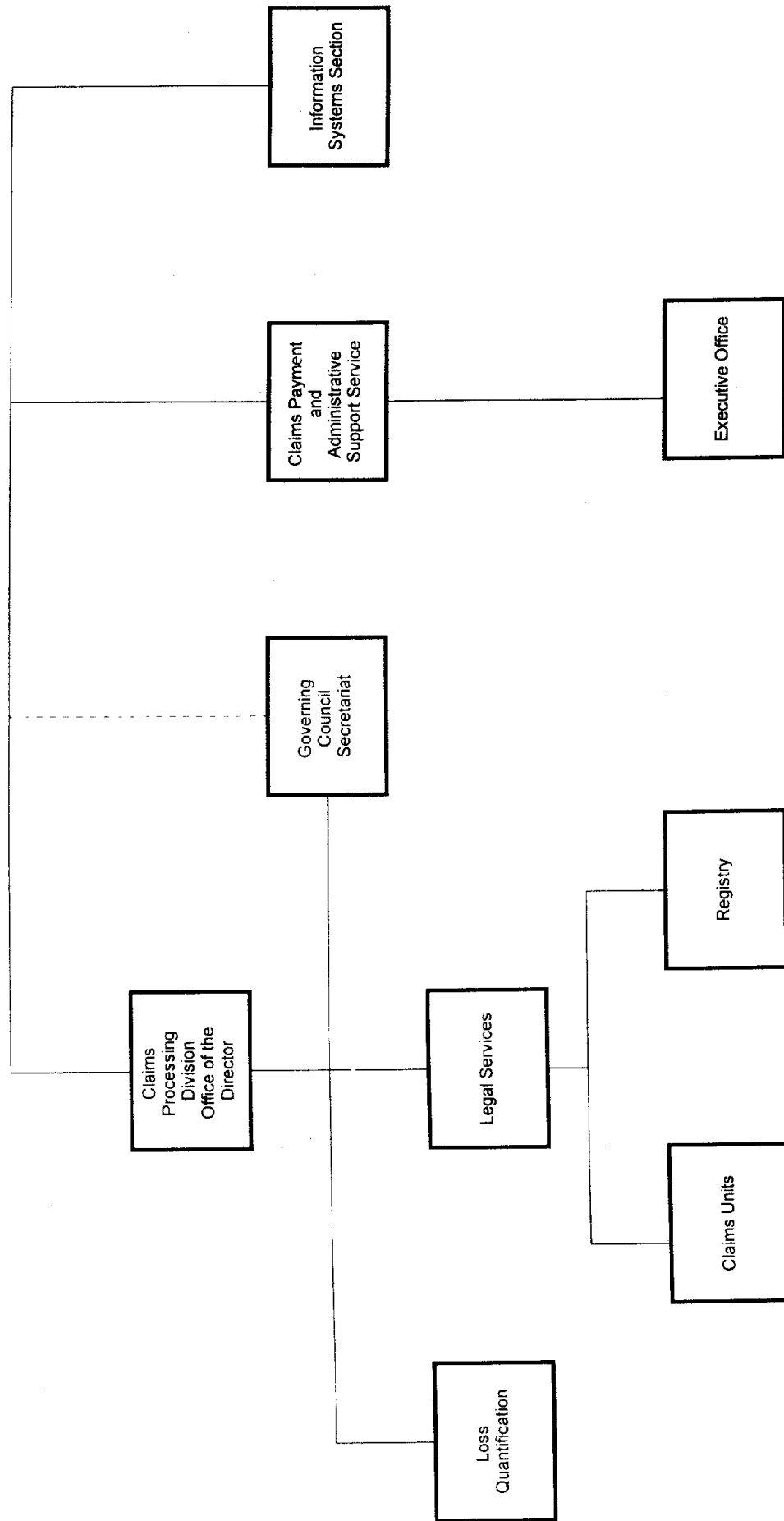




RECOMMENDED ORGANIZATION CHART

Annex III

Office of the  
Executive  
Secretary





MANDATE

LOSS QUANTIFICATION UNIT

This unit reports to the Deputy Secretary General and Director of the Claims Processing Division. It complements Legal Services by providing the secretariat support at the following stages in processing "D", "E" and "F" claims:

Articles 14 & 15 Review

Preliminary assessment of the evidence submitted by the claimant in support of the amount of the loss. Estimation of the scope of work, and the time and effort required to verify and quantify the losses.

Article 16 Report

From the Articles 14 & 15 Review, identification and elaboration of new factual (loss quantification) issues.

Article 17 Categorization

In collaboration with Legal Services, applying the legal and factual issues raised in each claim, inter alia, as criteria for grouping the claims in instalments to the Panels of Commissioners. Determining the requirements for consultants, and submitting plan for their utilisation to Deputy Executive Secretary for approval.

Article 32 Report and  
Article 34 Assistance

Preparing interrogatories on verification and quantification issues, reviewing responses and preparing brief for submission and presentation to Panels.

Article 38 Report

In collaboration with Legal Services, assisting the Panels in drafting and finalising Report and Recommendations to Governing Council.



POSITION PROFILE

CHIEF  
LOSS QUANTIFICATION UNIT

Scope Of Work

Provides advice to the Deputy Executive Secretary on the development of methodologies for evaluating the losses asserted ( application of business valuation and loss adjustment techniques, in the main);

Manages and coordinates the activities of the Loss Verification and Quantification Unit;  
Specifies the need for and manages the activities of external consultants assisting in the verification and quantification of losses;

Works closely with the Chief, Legal Services Section in preparing submissions to the Governing Council and to the Panels of Commissioners.

Person Specifications

Chartered Accountant with a minimum of 20 years professional experience, at least ten of which should be at a senior level in mergers and acquisitions or litigation support of multi-million dollar transactions.

Experience in consulting and/or managing the work of consultants.

Excellent knowledge of the English language.

